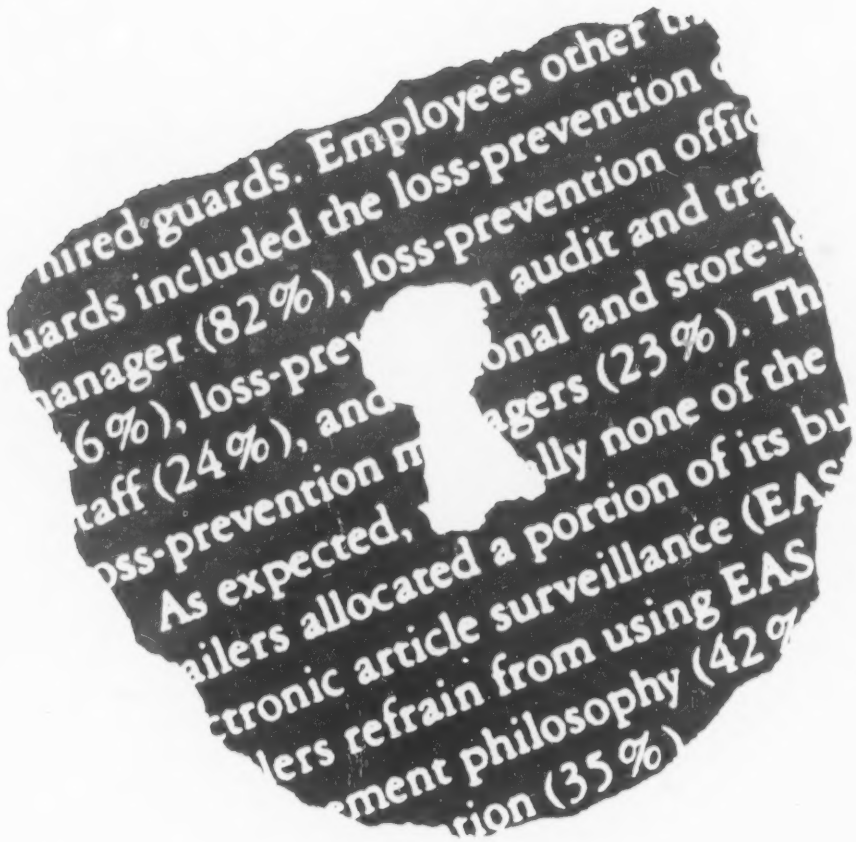
An Ounce of Prevention

1986-87 Edition

The eighth annual survey of security and loss prevention in the retail industry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The NMRI is an association representing more than 750 companies in the mass merchandising industry. The association keeps its members current on retail and business matters through publication of a monthly newsletter and sponsorship of meetings, seminars, and roundtables for groups that include executives involved in:

- Annual merchandising and management convention
- Top management
- Financial management
- Advertising and promotion
- Loss prevention
- Personnel
- Physical distribution and transportation
- Government affairs
- Direct product profit

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Arthur Young is an international accounting, tax, and management consulting firm with offices in 90 cities in the United States and 280 cities in 69 other countries. Through its Retail Services Group, Arthur Young provides the following specialized services to the retail industry in addition to a full range of accounting and tax services:

- Bi-monthly newsletter on a broad spectrum of current retail issues
- Operations consulting
- Systems design and implementation
- Point-of-sale and purchase-order management systems consulting
- Security and loss-prevention consulting and training
- Productivity improvement consulting
- Human resources consulting
- Annual survey of retail EDP expenditures

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From the Editors

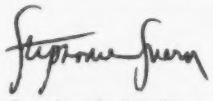
Retailing is dedicated to change and excitement in public, but behind the scenes the industry now commands a steady, reliable approach to security and loss prevention. The field of security and loss prevention is complex. Part investigation, part auditing, part employee training, part high tech, it is at all times an operational and management challenge. It is a piece of the total retail operation that can't be expected to yield good results under anything but truly committed management. It resists being reduced to bureaucratic routine and tends to deteriorate surprisingly without a proactive, hands-on approach. The outstanding interviews with Marshall Field's executives in this edition of *An Ounce of Prevention* show something of the constant, diversified efforts needed to maintain—and gradually add to—excellence in security and loss prevention.

Overall shrinkage averaged 1.8 percent of sales in both 1985 and 1984. Mass merchants reported a two-tenths percent decrease while specialty stores remained flat at 1.6 percent. Department stores lost a little ground, a tenth of one percent, although their spending (.50 percent of sales) remained steady. Remarkable here is that the statistics reflect small increments in either direction; they demonstrate that industry security and loss-prevention professionals have, generally speaking, "gotten their arms around" the larger problems. They are working now for smaller gains—but as all retailers recognize, shrinkage has a direct impact on the bottom line. No one can afford it. Tenths translate, sooner or later, into millions.

Employee theft continues to remain the dominant challenge (estimated to be on average 42 percent of total shrinkage), followed by shoplifting (31 percent), poor paperwork (23 percent), and vendor theft (4 percent). Training continues to be the preferred response, followed by guards and physical deterrents such as lock-and-chain devices.

The Marshall Field's interviews mention the typically high employee turnover in the lower echelons of retailing—and implicitly suggest that more attention to the conditions of employment could reduce turnover and increase that intangible benefit, loyalty. Only the individual retailer can calculate what "more attention" would cost. Clearly, productivity and quality-of-worklife programs aren't just raises—they are many-sided, and they might well pay dividends in reduced shrinkage.

These are just a few thoughts prompted by this year's survey and interviews; readers will surely have many others. The editors wish to thank Marshall Field's asset-protection executives for participating so fully in this publication. We are grateful to Mr. Burnett Donoho, President and Chief Operating Officer of Marshall Field's, for his contribution.



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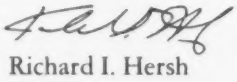


Richard I. Hersh
President
National Mass Retailing Institute

The Eighth Annual Survey of Security and Loss Prevention

Highlights

One hundred thirteen retailers, operating in more than 30,000 locations, participated in this year's study. They fall into the following retail categories: 44 mass merchants, 29 department stores, and 40 specialty stores.

- Overall shrinkage averaged 1.8 percent of sales in both 1985 and 1984. However, by retail segment there was some variation: Mass merchants reported a decrease in shrinkage from 1.9 percent to 1.7 percent, department stores reported an increase from 2.1 percent to 2.2 percent, and specialty stores remained flat at 1.6 percent.
- An average of .37 percent of sales was spent on security and loss prevention in 1985, costing the participating retailers $255 million. As a percentage of sales, specialty stores spent on average .29 percent, mass merchants spent .38 percent, and department stores spent .50 percent.
- Retailers attributed approximately 42 percent of their total shrinkage to employee theft, 31 percent to shoplifting, 23 percent to poor paperwork control, and 4 percent to vendor theft. Participants estimated that 39 percent of the shrinkage due to employee theft occurs at the point of sale and 17 percent on the selling floor.
- On average, over one-half of the participating retailers' security budgets are allocated to payroll expenses, including internal guards (29 percent) and security personnel other than guards (24 percent).
- Fourteen percent of all security expenditures were allocated to electronic tags and other electronic equipment (9 percent for tags, 5 percent for other electronic equipment).
- Training programs (85 percent), guards (81 percent), and lock-and-chain apparatus (80 percent) were the methods most often cited as shrinkage-control measures.
- Mass merchandisers tended to rate training programs as their most effective security measure, while department stores considered guards/detectives to be their most effective measure.
- Overall, electronic tags and training programs were perceived to be the most effective measure for controlling shrinkage. Mirrors continue to be perceived as the least effective device.
- Self-teaching training manuals and videotapes are the most frequently cited training materials for both security and nonsecurity personnel.

Scope and Method of Study

This report, eighth in a series conducted by Arthur Young under the sponsorship of the National Mass Retailing Institute, is designed to assist retailers to develop new loss-prevention programs and to evaluate those in current use. This year's survey explores the types of loss-prevention programs in use and provides, as always, the shrinkage statistics that have become industry benchmarks.

The study encompasses the following types of retail establishments:

- **Mass Merchants**
  Discount, general-merchandise, drug, and variety chains with multiple departments, central checkout, and limited selling staff.
- **Department Stores**
  Multidepartmental retailers offering departmental checkout with highly visible selling service. This category includes specialty stores with the principal characteristics of department stores.
- **Specialty Stores**
  Few departments, central checkout, generally with 7,500 square feet or less of selling space.

The information for this survey report was accumulated by questionnaire in the summer of 1986, and is generally based on fiscal 1985 data. Participation was solicited from the membership of the National Mass Retailing Institute and from a diversified sample of retail companies. In total, 113 companies responded. Every response was reviewed for completeness and consistency to ensure accurate processing and appropriate use of information.

Where multiple responses were permitted, the tables do not foot to 100 percent.

Wherever the term *stores* is used in this report, it refers to companies except where it clearly designates specific numbers of stores. Reflecting this year's data, high and low shrinkage were defined as follows for each retail segment:

- For mass merchants and specialty stores, low shrinkage = less than 1.0 percent of sales, high shrinkage = more than 2.0 percent of sales.
- For department stores, low shrinkage = less than 1.5 percent of sales, high shrinkage = more than 2.5 percent of sales.

Food-store findings and statistics are not included in the main body of this report; a report on food retailers appears in the Appendix on page 15.

The Participants

The 113 retail organizations participating in this year's study operate in more than 30,000 locations with total sales of more than $110 billion. Of these 113 retailers, 44 are mass merchants with nearly 13,200 locations and aggregate 1985 sales in excess of $76.8 billion. This year's participants also include 29 department-store chains operating in 3,700 locations with 1985 sales of $18.1 billion, and 40 specialty-store companies in approximately 13,200 locations with sales of $15.7 billion. Thirty-one percent of the participants report 1985 sales of $500 million and over, while 43 percent had sales of $100 million to $499 million. Overall, sales for the participating retailers increased an average of 13 percent from 1984 to 1985 levels.

Table 1 The Participants

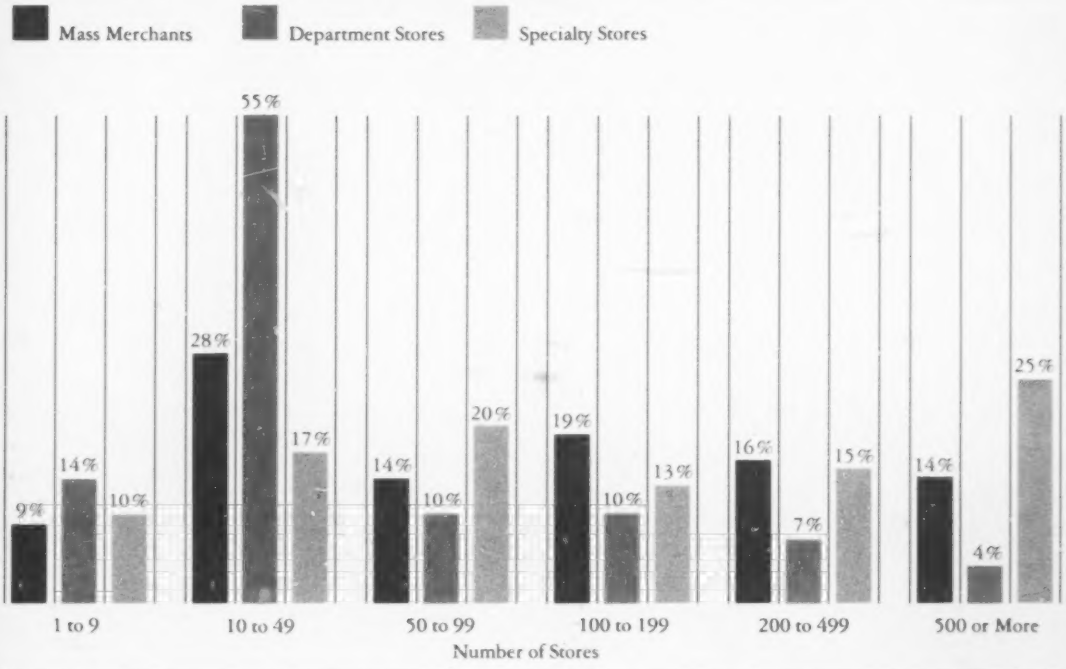
	Number of Companies	Number of Stores	Sales Volume ($ Billions)
Mass Merchants	44	13,200	$ 76.8
Department Stores	29	3,700	18.1
Specialty Stores	40	13,200	15.7
	113	30,100	$110.6

Table 2 Number of Participants by 1985 Sales Volume

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Under $10 Million	1	0	0	1
$10 to $49 Million	1	5	6	12
$50 to $99 Million	5	3	8	16
$100 to $499 Million	17	15	17	49
$500 Million and Over	20	6	9	35

Nearly half of the respondents had 50 or more store locations; 15 percent had at least 500 stores. As expected, mass merchants and specialty-store companies had more store locations than did department-store chains. Over 40 percent of both mass merchants and specialty stores reported at least 100 locations; in comparison, only 21 percent of the reporting department stores had at least 100 locations.

Chart A Analysis of Participants by Number of Stores



Seventy-three percent of the participants report operating at least half of their stores in suburban locations. By retail segment, this is true for 80 percent of the mass merchants, 71 percent of the department stores, and 67 percent of the specialty stores.

Table 3 Percentage of Participants by Store Location

	Mass Merchants	Department Stores	Specialty Stores	All Participants
100% Urban	3%	18%	18%	12%
1% to 49% Suburban	17	11	15	15
50% to 74% Suburban	10	7	21	13
75% to 99% Suburban	30	50	36	38
100% Suburban	40	14	10	22

Shrinkage Results

Study participants report inventory shrinkage to be, on average, 1.8 percent of sales for both 1985 and 1984. This level of shrinkage represents losses to the participating retailers of nearly $1.3 billion. Examined by retail segment, however, average shrinkage levels increased for department stores from 2.1 percent in 1984 to 2.2 percent in 1985, decreased for mass merchants (1.9 percent in 1984 and 1.7 percent in 1985), and for specialty stores remained constant at 1.6 percent in both years.

Table 4 **Shrinkage Results by Retail Category**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Percentage of Shrinkage 1985	1.7%	2.2%	1.6%	1.8%
Percentage of Shrinkage 1984	1.9	2.1	1.6	1.8
Total Amount of Shrinkage 1985 ($ millions)	$820	$242	$221	$1,283

Medium-sized retailers, with sales from $100 million up to $500 million, reported the highest average shrinkage levels of 2.1 percent, compared to small (under $100 million) retailers with average shrinkage levels of 1.6 percent and large retailers (sales of $500 million or greater) with average shrinkage levels of 1.5 percent.

Reported shrinkage results are affected by the inclusion or exclusion of items such as markdowns, damages, and known theft or loss. Most retailers account for and control markdowns separately under the retail inventory method. However, some retailers' systems do not allow them to capture all markdown data separately, and their shrinkage figures therefore include markdown losses.

Shrinkage Attributions

Since retailers have no way of accurately measuring the individual components of the causes of shrinkage, the graph on the following page reports the considered opinions of retailers in the survey population.

The participating retail organizations attribute approximately 42 percent of this year's inventory shrinkage to employee theft, 31 percent to customer shoplifting, 23 percent to poor paperwork control, and 4 percent to vendor theft. Vendor theft is defined as theft by vendor representatives on the selling floor and at stock or distribution areas. Customer shoplifting is taking a smaller toll than internal factors such as employee and vendor theft and poor paperwork control.

Surveyed retailers report that the most likely place for an employee to pilfer is at the point of sale (39 percent), with such tactics as under-ringing. The selling floor (17 percent) and stock areas (16 percent) are also common locations.

Chart B Attributions of Aggregate Shrinkage by Store Type

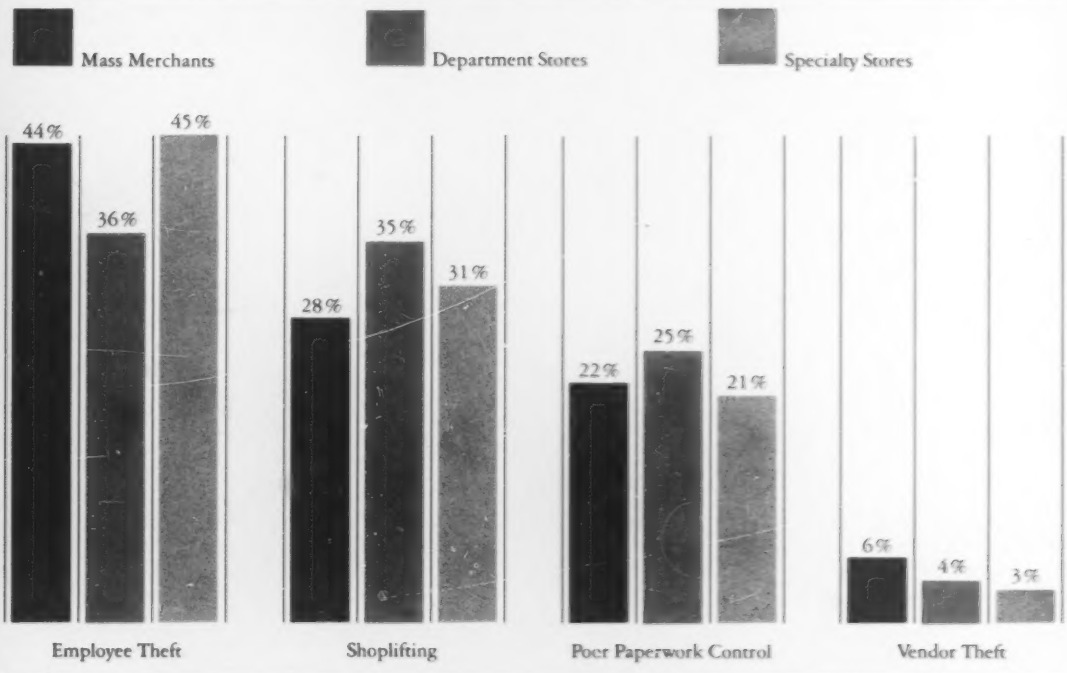


Chart C Shrinkage Attributable to Internal vs. External Factors

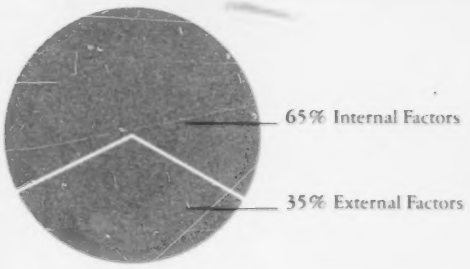
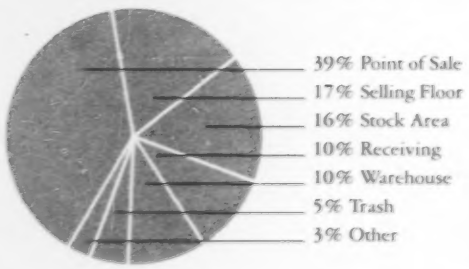


Chart D Retailers' Opinions on Location of Employee Theft



Expenditures for loss-prevention staff, equipment, and programs for fiscal 1985, as a percentage of sales, averaged .37 percent. This percentage translates to $255 million spent on security and loss prevention by our survey population.

Specialty stores, which had the lowest shrinkage as a percentage of sales, also reported the smallest percentage of sales spent on security (.29 percent) as compared to mass merchants (.38 percent) and department stores (.50 percent).

Mid-sized companies are spending more on security and loss prevention (.41 percent of sales) than either small (.34 percent) or large (.36 percent) companies, but have the highest percentage of shrinkage.

Low-shrinkage companies are spending a smaller percentage of their sales on security. For low-shrinkage companies, the expenditure averaged .33 percent of sales, while high-shrinkage companies averaged .44 percent.

Table 5 **Percentage of Participants by Percentage of Loss-Prevention Expenditures***

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Less than .1%	10%	11%	30%	18%
.1% to .24%	34	7	25	24
.25% to .49%	27	19	22	23
.5% to .99%	27	59	20	32
1% or More	2	4	3	3

*Loss-prevention expenditures as a percentage of 1985 sales volume

Allocation of Loss-Prevention Expenditures

On average, over one-half of the retailer's security budget is spent on payroll expenses: 29 percent for internal guards and 24 percent for payroll other than guards, such as the security and loss-prevention director and his or her office staff.

In addition to the 53 percent allocated to personnel, an average of 14 percent of the security budget went for electronic tags (9 percent) and other electronic equipment (5 percent)—a decrease of 7 percent over the 1984 allocation to high-tech devices (10 percent electronic tags, 5 percent other electronic equipment).

Table 6 Allocation of Loss-Prevention Expenditures

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Electronic Article Surveillance (EAS)	4%	12%	12%	9%
Other Electronic Equipment	4	5	6	5
Physical Facilities	6	4	8	6
Internal Guards	31	47	14	29
External Guards	9	5	12	9
Payroll Other than Guards	27	14	29	24
Outside Services	6	4	6	6
Incentive Programs	2	2	2	2
Training	4	3	5	4
Other	7	4	6	6

Shrinkage Control Devices and Methods

Training programs (85 percent) were reported to be the most commonly used device or method to control shrinkage. Guards (81 percent) were reported to be the second most commonly used device or method. Specialty stores reported training programs to be the most frequently employed method while mass merchants cited guards and training programs with equal frequency. Department stores reported guards as their most prevalent method.

Nearly half (49 percent) of the retailers used electronic article surveillance (EAS). A higher percentage of department stores (55 percent) reported using EAS than either mass merchandisers (46 percent) or specialty stores (48 percent).

In companies that use them, training programs (24 percent), electronic tags (21 percent), and guards (20 percent) were judged to be the most effective means of controlling shrinkage. Companies with low shrinkage (under 1 percent of sales) rated training programs (24 percent) as their most effective method, while companies with high shrinkage (over 2 percent of sales) cited electronic tags (22 percent) and guards (22 percent).

Mirrors, previously reported as the most popular method, have decreased in popularity to a fifth-place ranking; however, they continue to be rated the least effective method by the highest percentage of respondents (55 percent). Ranking second in this category of common but relatively ineffective devices were locks and chains (12 percent). Companies continue to use the method rated least effective because the cost is minimal, and store employees and customers perceive it to be an effective control measure.

Table 7 **Shrinkage Control Devices**

Devices by Frequency of Use	Devices Judged to be Most Effective	Devices Judged to be Least Effective
Training Programs	Training Programs	Mirrors
Guards/Detectives	Electronic/Magnetic Tags	Lock-and-Chain Devices
Lock-and-Chain Devices	Guards/Detectives	Limited-Access Areas
Limited-Access Areas	Point-of-Sale Systems	Visible TV Monitors
Mirrors	Concealed TV Monitors	Fitting-Room Attendants
Point-of-Sale Systems	Visible TV Monitors	Observation Booths
Concealed TV Monitors	Observation Booths	Guards/Detectives
Observation Booths	Limited-Access Areas	Training Programs
Visible TV Monitors	Lock-and-Chain Devices	Concealed TV Monitors
Electronic/Magnetic Tags	Mirrors	Point-of-Sale Systems
Fitting-Room Attendants	Fitting-Room Attendants	Electronic/Magnetic Tags

Table 8 **Security Devices Used**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Electronic Tags	46%	55%	48%	49%
Guards/Detectives	86	93	68	81
Limited-Access Areas	84	86	68	79
Lock-and-Chain Devices	82	83	75	80
Mirrors	82	76	65	74
Observation Booths	55	76	23	49
Point-of-Sale Systems	75	79	65	73
Visible TV Monitors	52	55	40	49
Concealed TV Monitors	75	79	33	61
Fitting-Room Attendants	52	59	15	41
Training Programs	86	86	83	85
Other	21	17	23	20

Table 9 **Percentage of Participants Using a Security Device Who Believe It to be the *Most* Effective**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Electronic/Magnetic Tags	12%	28%	24%	21%
Guards/Detectives	18	31	14	20
Limited-Access Areas	3	4	0	2
Lock-and-Chain Devices	0	0	3	1
Mirrors	0	4	0	1
Observation Booths	5	3	0	3
Point-of-Sale Systems	12	3	8	8
Visible TV Monitors	5	3	5	5
Concealed TV Monitors	10	3	3	6
Fitting-Room Attendants	3	0	0	1
Training Programs	22	21	30	24
Other	10	0	13	8

Table 10 **Percentage of Participants Using a Security Device Who Believe It to be the *Least* Effective**

	Mass Merchants	Department Stores	Specialty Stores	All Participants
Guards/Detectives	5%	0%	6%	4%
Limited-Access Areas	11	0	6	6
Lock-and-Chain Devices	19	14	3	12
Mirrors	46	59	63	55
Observation Booths	5	7	3	5
Point-of-Sale Systems	0	3	0	1
Visible TV Monitors	8	0	8	6
Concealed TV Monitors	3	3	0	2
Fitting-Room Attendants	0	14	6	6
Training Programs	3	0	5	3

As in prior years, survey participants believe training of both loss-prevention and other types of store personnel to be one of the most effective ways to reduce shrinkage.

Low-shrinkage companies (83 percent) are more likely to conduct training programs than high-shrinkage companies (74 percent). Low-shrinkage companies are also more likely to view their programs as the most effective security measure (22 percent), while only 17 percent of the high-shrinkage companies are equally satisfied.

Orientation Training

Self-teaching training manuals and videotapes are the most widely used orientation training for both security and nonsecurity personnel. Stores are more likely to use videotapes for nonsecurity personnel and self-teaching manuals for security personnel. Department stores are more likely to use videotapes than either mass merchants or specialty stores.

Videotape training programs require investment in the necessary equipment. While this may not be prohibitively expensive for a retailer with many employees in a centralized location (such as a department store), it may be less feasible for specialty stores with many smaller locations and decentralized personnel.

One department store has been successful in utilizing a videotape module program in which each module deals with a separate loss-prevention topic. This program allows for group discussion after each module presentation.

Chart E Methods of Orientation Training for *Security* Personnel

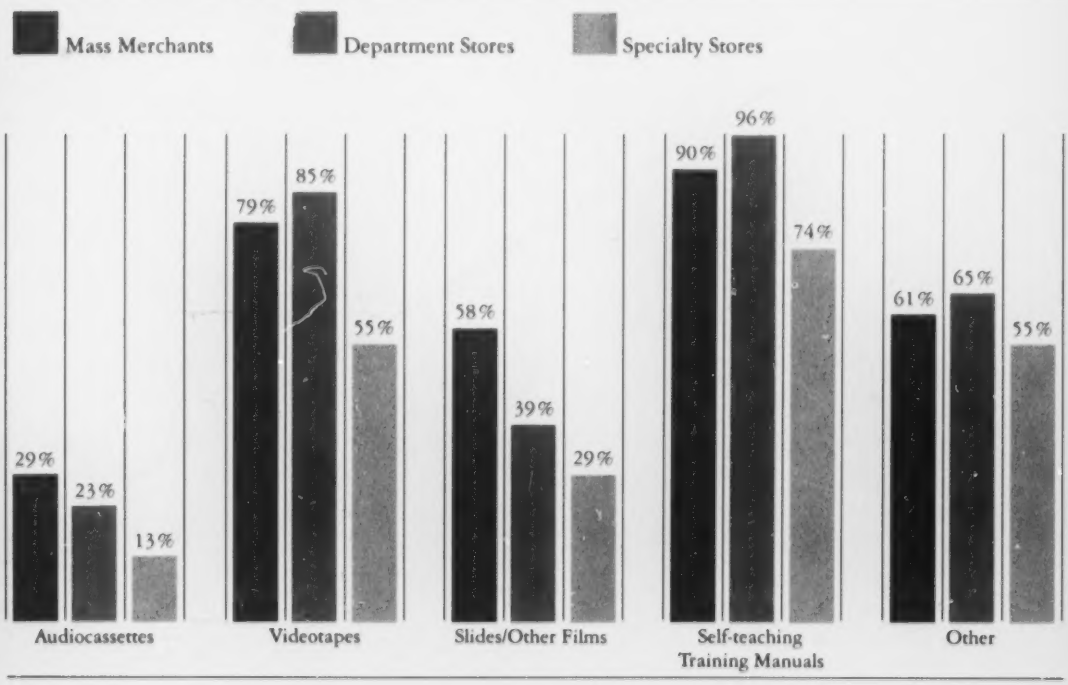
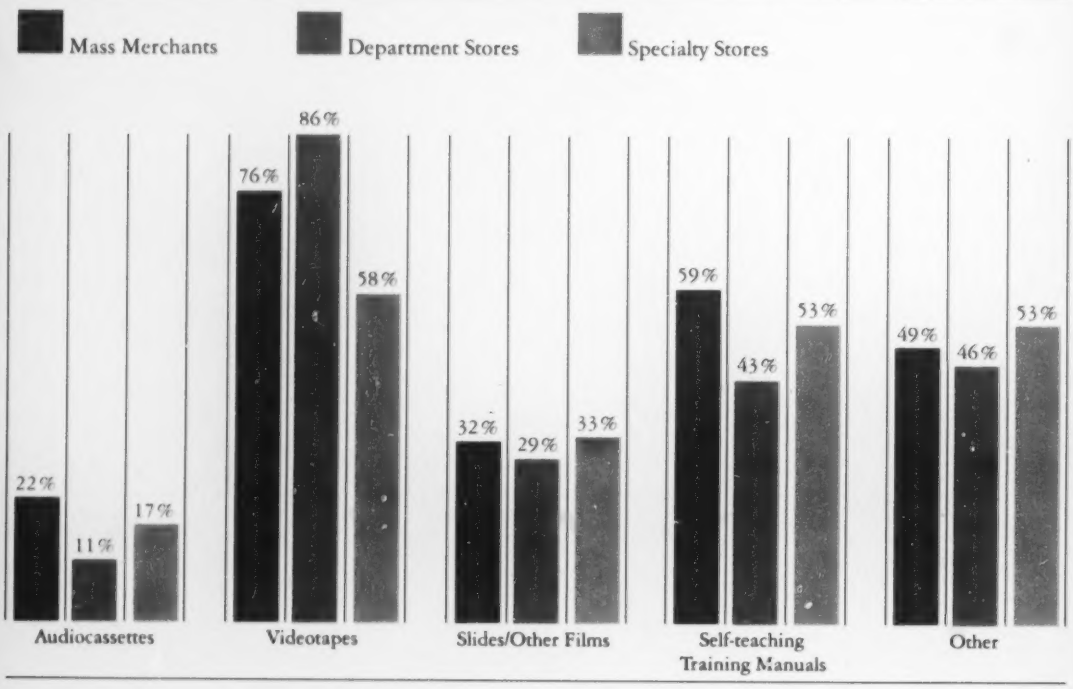


Chart F Methods of Orientation Training for *Nonsecurity* Personnel



Appendix: Food Retailers

The Participants

Eighteen food retailers, operating at more than 2,100 locations, participated in this year's study. Their aggregate 1985 sales volume was in excess of $26 billion. Thirty-nine percent of the participating food retailers report a 1985 sales volume of $500 million or more. Twenty-eight percent of the respondents had at least 100 stores, and 6 percent had more than 500.

Shrinkage Results

Participants report average inventory shrinkage of 1.0 percent of sales for 1985 and the same percentage for 1984. This contrasts with nonfood retailers, who report shrinkage rates of 1.8 percent for 1985 and 1984.

Shrinkage Attributions

Most companies do not have accurate methods for determining the actual sources of shrinkage. The following information, therefore, is based on their opinions.

Participating food retailers attribute 47 percent of their inventory shrinkage to employee theft, 26 percent to shoplifting, 14 percent to vendor theft, and 13 percent to errors in paperwork and accounting. Forty-nine percent of employee theft is believed to occur at the point of sale.

Participants indicate several courses of action which they consider most effective in reducing shrinkage. The most common method is to emphasize loss-prevention training programs (41 percent). Another 29 percent believe guards and detectives to be beneficial. These results are not surprising, inasmuch as the companies attribute almost half of their shrinkage to employee theft.

Security Expenditures

Food retailers spent 0.14 percent of their sales on security and loss-prevention staffing, equipment, and programs in 1985. This represents a larger amount than the 0.11 percent spent in 1984.

More than half of most companies' security expenditures were for personnel. On average, 30 percent went to employee guards, 25 percent to payroll other than guards, and 13 percent for hired guards. Employees other than guards included the loss-prevention director/manager, loss-prevention office staff, loss-prevention audit and training staff, and regional and store-level loss-prevention managers.

As expected, virtually none of the food retailers allocated a portion of its budget to electronic article surveillance (EAS). However, other electronic equipment such as point-of-sale systems (67 percent), visible TV cameras (56 percent), and pin-hole video cameras (50 percent) are in use. Expenditures for these devices averaged 5 percent of the food stores' security budgets. An additional 11 percent was allocated to training and incentive programs, 9 percent for outside detective/shopping services, and 6 percent for physical facilities.

Shrinkage Control Practices

Guards/detectives, one of the most popular measures in controlling shrinkage, were utilized by 78 percent of the companies. Other widely used devices were training programs and locks-and-chains; each was also cited by 78 percent of the companies. Training programs (41 percent) and guards/detectives (29 percent) were judged to be most effective by food retailers reporting their use. Although many use mirrors, none considers them to be the

most effective selling-floor device for loss prevention. Thirty-five percent of the users actually believe mirrors to be *least* effective. However, the minimal cost and the presumed perception by store employees and customers that mirrors are effective provide motives to continue their use.

Personnel Training Policies

Almost all of the food retailers have security and loss-prevention orientation programs for both security and nonsecurity personnel. Some methods of formal training in loss prevention and security for new security personnel include self-teaching manuals (73 percent) and videotapes (67 percent). These two methods are also much used for nonsecurity employees, but more companies favor the use of videotapes (71 percent) than manuals (47 percent) when training nonsecurity personnel.

The greatest percentage of survey participants (41 percent), believe that their existing training programs influence shrinkage levels very effectively as opposed to other methods. Fifty percent of companies with shrinkage under 1.0 percent of sales consider their training programs to be very effective.

Table 11 **Food Retailers: Percentage of Participants by 1985 Sales Volume and Shrinkage Percentage**

	Shrinkage Percentage	
	Under 1%	1% and Over
Under $100 Million	33%	0%
$100 to $499 Million	34	25
$500 Million and Over	33	75

Table 12 **Food Retailers: Percentage of Participants by Loss-Prevention Expenditures* and Shrinkage Percentage**

	Shrinkage Percentage	
	Under 1%	1% and Over
Less than .1%	56%	100%
.1% to .24%	22	0
.25% to .49%	11	0
.5% or More	11	0

*Loss-prevention expenditures as a percentage of 1985 sales volume

Table 13 **Food Retailers: Security Devices Used on the Selling Floor by Shrinkage Percentage**

	Shrinkage Percentage	
	Under 1%	1% and Over
Mirrors	80%	75%
Limited-Access Areas	60	50
Observation Booths	50	50
Visible TV Cameras	60	25
Concealed TV Cameras	50	25
Point-of-Sale Systems	70	50
Guards	60	100
Lock-and-Chain Devices	80	75
Training Programs	90	50

Executive Interviews

Asset Protection at Marshall Field's— Taking "Four Walls" Responsibility

Editors' Note: Marshall Field's, one of the BATUS Group of Companies, operates 27 department stores in the Chicago region, Wisconsin, and Texas. With approximately 14,000 employees and 1986 sales approaching $900 million, it would be a major business in any industry. Hoisting its great bronze clock out over busy State Street in downtown Chicago, Marshall Field's flagship store is a familiar city landmark. At the time Arthur Young called on the company's senior asset-protection executives, the Christmas windows were full of crisp animated scenes, and signs inside pointed toward a Santa somewhere past linens. Marshall Field's is a proudly traditional department store—but we had reason to believe that its security and loss prevention program is thoroughly innovative and second to none.

Marshall Field's executives participating in the interviews are Mr. Lewis Shealy, Vice President for Loss Prevention, and his senior aides, Mr. Michael O'Keefe, Director of Inventory Control, and Mr. Paul Cogswell, Director of Loss Prevention. Concluding the round of interviews, Mr. Burnett Donoho, President and Chief Operating Officer, was kind enough to offer his personal insight into security and loss prevention at Marshall Field's.

- *There is a sign on the desk of each asset-protection executive:* No Surprises. *This is the motto of asset protection at Marshall Field's—a clear, tough-minded message.*

With Lewis Shealy and Michael O'Keefe

Mr. Shealy: Let's start with some numbers. Marshall Field's has 17 stores in the Chicago area, six in Wisconsin, and four in Texas—all serviced by a single distribution center here in Chicago. Our annual asset-protection budget is on the order of $5 million, and personnel specifically concerned with asset protection total about 150 at present. The cost of our asset-protection program is running at slightly less than the .5 percent median for department stores. Shrinkage from all causes, as a percentage of sales, averaged 2.1 percent in 1986—better than previous years, not yet good enough. With 1987 sales projected to be in the range of $1 billion, you can understand that we give tremendous importance to asset protection. One reflection of our emphasis is the fact that as Vice President for Loss Prevention I report directly to the President and COO—and this is unusual, rarely seen in the industry.

Arthur Young: We understand that three Directors of security and loss prevention activities report to you, and they in turn have quite a few units under their responsibility.

Mr. Shealy: Yes, when I came here three years ago, we brought the three primary asset-protection areas under one umbrella. Mike O'Keefe, a strong numbers person, is Director of Inventory Control; he's responsible for paper controls and the semi-annual inventory process. The Director of Loss Prevention, Paul Cogswell, is responsible for security, loss prevention, and investigations. A third individual, Bill Schroeder, is responsible for Risk Management; his job is to assure the safety of customers and employees throughout our stores and to manage our relation with insurance carriers.

Before I came to Marshall Field's, the people in those positions were all different. The risk manager reported to personnel, the other two functions to the controller, and it's not unfair to say that when problems came up

there was a good deal of finger-pointing—the organizational pattern made that almost mandatory. Now, we're all one team.

Because I report to the President, whose office is next door, I'm in a position to create the awareness our division needs. Further, the President and senior executives of the company attend the monthly meetings of the central asset-protection steering committee. This committee has the authority to authorize expenditures of funds at once to correct problems and change procedures. It meets regularly with asset-protection representatives from all of the stores and has strong input into their plans and procedures.

Mr. O'Keefe: This centralized management system is basically duplicated at the store level, where the operations manager chairs the monthly asset-protection meetings from which operating guidelines emerge. The agendas of those meetings are set for the stores by my office on the basis of what we learn every day throughout the system as a whole. We might ask for a review of interstore transfers, price changes, merchandising discrepancy reports, drop shipments, store security—whatever is timely and necessary. The minutes of those meetings are forwarded to us here. We lose no opportunity to communicate.

Arthur Young: We want to ask you about some of the specific issues you're facing in asset protection.

Mr. Shealy: To have an effective loss prevention program, you need a good "marriage" among the merchants, financial people, operations people, and store managers. You have to be able to walk between the lines of authority and accomplish your mission—and you need people's basic trust, because a lot of what you want to do comes into direct conflict with what they want to do.

A good example was Waterford crystal. In 1983 when I first came on board, we had a $350,000 shortage in Waterford alone. Now, I'm not a merchant, I'm committed to loss prevention, and so I said to the merchants: "Let's lock it up." They said, "No way, you can't sell Waterford if you put it under lock and key." Well, we took the issue to the central steering committee, and they supported giving a chance to my approach. We spent $40,000 in 19 stores to put the Waterford in locked glass cases. And can you believe it, in that first year sales of Waterford crystal increased more than 10 percent, and shortage came in at $20,000. In 1986, shortage in this item was $2,000 for all 27 stores combined.

Arthur Young: How do you explain those results?

Mr. Shealy: Waterford isn't an impulse purchase. The customer is going to want to go slowly, talk it over with his or her spouse. Waterford doesn't need to be on open display to be sold effectively. Then, you have to understand why people steal: they steal because the opportunity is there. If you take away the opportunity, most people won't steal.

This story illustrates the need for communication between asset-protection people and merchants. You can't do anything by yourself. If you don't have a team effort, you don't have much. The sooner you start building communication, the better. Loss-prevention merchandising standards need to be built right into a store—if possible when it is being designed and merchandised for the first time. Fitting-room design, merchandise presentation, all these things are part of loss-prevention strategy. By sitting down with the buyer, the department manager, and the general manager of a store, asset-protection people can come to a mutual understanding with them.

Another example comes to mind—Marshall Field's "28 Shop," specialized in top-of-the-line women's apparel. It used to run a 15-percent shortage, throwing so much loss against gross

margin that the store manager and buyers allowed us to do almost anything we wanted in their area. Still, we had to be *salesmen*, we had to sell our ideas and programs, and in our profession you need to be ready and able to do that. What did we install? The best cable security devices available. Admittedly it looks terrible, but it's improved shrinkage and hasn't hurt sales.

Arthur Young: Why did you use cables instead of EAS?

Mr. Shealy: We're actually in the process of removing tags from merchandise in several of our stores. This may surprise you, but the cost of putting tags on, taking them off, and replacing breakage *may* outweigh the benefits of using them. So we're running an experiment. You see, we have 2,600,000 tags, and we calculate that it costs us $360,000 in yearly payroll to run our central tagging operation. Now, we have to buy 200,000 replacement tags annually at a cost of about a dollar each. So before we've made a sale, we face more than $500,000 in payroll and tag-replacement costs—and as the tags get older, you have to replace more of them.

Add to this the hidden cost of the sales associate's time when he or she removes the tag at the time of purchase. It's just 15 seconds or so—but multiply that over a year, and you'll see that it probably has some impact on productivity and even on loss prevention, in the sense that attentive customer service is still the best method of loss prevention.

Of course, we've looked at data from other stores that removed tags, and some of the results are very satisfactory. We thought it worth our while to try.

Mr. O'Keefe: We keep a broad focus; our experiment with tags is only one small part of the whole. For example, in the course of a year Marshall Field's generates about $120 million worth of price changes, the majority done right at the point of sale. If we have just a one-percent level of error in those markdowns— one percent misrecorded or unrecorded—that alone will generate quite a few tenths of shortage. Over the past three years, we have put tremendous effort into "cleaning up the paper."

Arthur Young: What kinds of initiatives have you been taking?

Mr. O'Keefe: We work on it from all sides. One thing is certain: we track a lot. We do a tremendous amount of computer tracking—markdowns, mispricing, customer adjustments, and so on. An underlying issue is that many retailers have very high personnel turnover at the sales level, easily on the order of 60 to 70 percent annually. This means training—constant training in the correct handling of paperwork, in security and loss-prevention awareness. With mostly new people at the point of sale taking responsibility for many different transactions they don't really understand, you're bound to have shortage problems without constant training. We also have a training manual and training program for stockkeepers because they're the ones who write up transfers, receive merchandise, count it, and check it in.

Here is another element, and an important one: *Everybody down to the department manager has a shortage goal.* I don't know of many companies that have tried this.

Arthur Young: Who sets the shortage goals?

Mr. O'Keefe: We do here. First of all, we reach a broad agreement at the steering-committee level, for example that in 1987 we want to reduce shortage below the two-percent level.

Now, to reach that goal we have to set each buyer's goal equitably in terms of past experience, and each should feel challenged. Then we have to look at the prior history of each store and set a fair store manager's shortage goal. This in turn has to be divided out into department managers' goals.

Everyone thereafter is accountable. People know that they're going to be rated twice a year—and setting shortage goals has had a big impact in all respects, not least on cleaning up the paper.

Mr. Shealy: Another approach that we've taken to cleaning up the paper may interest you. We call it our S.T.O.P. program (*"shortage takes our profits"*), and we've applied it to 25 problem departments with their very thorough cooperation. While there are many parts to a S.T.O.P. effort, the heart of the thing is simple: *awareness*. When people become aware of a loss-prevention problem area, you can really consider the problem more than half-solved.

We begin a S.T.O.P. effort with a shirtsleeves session that brings together everybody concerned—buyers, department managers, sales associates, asset-protection people. We review the numbers, we ask ourselves what's wrong, we look for solutions together, and we develop merchandise standards and paper-control systems that we wouldn't necessarily use somewhere else. For example, all of the paperwork from these departments has a little red S.T.O.P. sticker on it—it's like a red flag, and everyone handling that paper knows that it requires extra attention and will be audited.

Since we started this program three years ago, shortage in these departments has been declining at a significantly faster rate than in other departments.

Mr. O'Keefe: We also develop specific methods for departments that might not be applicable somewhere else. For example, over the past year we've had $3.5 million in damage and breakage that has had to be marked out of stock. This is just another kind of loss, and we don't intend to repeat it next year. Part of the solution is simple, really just an awareness tool: We designated a box that damages are to be put into very deliberately. We process the damages, take markdowns where it makes sense, ship badly damaged pieces to a central location. Two fulltime people there try to return merchandise to stock by repairing it or matching one good piece with another. If all else fails, they do returns to vendors. Just lately, we've decided to add another process to see if it helps: We'll be sending those two people around to the stores to process jewelry damages on the spot. We're also setting up some new audits in our store audit program, focused on specialty divisions.

Mr. Shealy: All in all, you can see that we keep after these problems, and we're getting results. For example, we've just completed our big-ticket inventory. At mid-December, shortage in this category was running .11 percent, compared with .89 percent in mid-June—results we can be proud of. The trend is right.

Arthur Young: Do you have special control procedures for big-ticket items?

Mr. O'Keefe: Yes, we have an automated big-ticket accounting system separate from our accounts payable system. It maintains a piece-by-piece inventory of every item. We also have a big-ticket coordinator, basically an auditor reporting to me directly, whose sole responsibility is to work that big-ticket system and monitor paper shortages.

Mr. Shealy: Another effort in this area is called "value shipments." At the service center, in transit, and on arrival in store departments, we give special handling to shipments of big-ticket items such as jewelry, furs, leather, and silver. They are diverted from our normal distribution process into a "value system" under the management of a bonded courier. Access to value shipments is strictly limited; the containers are locked and secured at all times, and separately checked in at the stores. The result

of this special handling is that we didn't lose a single "value shipment" item in transit, either this year or last—a significant improvement over the early '80s.

Arthur Young: We haven't yet looked at some of the classic concerns of retail loss prevention, for example shoplifting, credit-card fraud. Do you have programs or recent experiences in these areas that professionals across the country should know about?

Mr. Shealy: Most retailers today are plagued with telephone credit-card fraud. Last year we implemented a simple program that has worked well for us. We decided to put together a list of all known addresses in the Chicago area that had been used for credit-card fraud, based not only on Marshall Field's records but with cooperation from other retailers, the post office and UPS, local bank-card units, and American Express. We don't log names onto the computer, just addresses. When a telephone order comes in, we check against a negative list. If an address on that list is used, we delay the transaction, our fraud manager investigates, and we are then in a position to turn the order down. In 1986, we turned down $203,000 in orders going to known bad addresses. You know, some people try to make a living this way—there's a good deal of repetition, and this makes the program valuable. This year, with sales up significantly, our fraud write-offs were the same as last year because of this program.

To combat shoplifting and employee theft, we have initiated a cooperative program among local retailers. Just last year, two attorneys were engaged to operate a Stores Mutual Association (SMA) which among other things maintains a file, under the Fair Credit Reporting Act, of the names of known shoplifters and employees discharged for dishonesty. Before we hire somebody, the applicant's name is submitted to the SMA for clearance. Good pre-employment screening is an important part of loss prevention.

As regards shoplifting, we train our sales associates to use attentive customer service as a strategy against shoplifting. We have done some terrific videotapes on the subject with the help of a former shoplifter who happens to be a brilliant speaker. We have also initiated something we call a "bar notice," which required careful legal structuring. This is a notice given to shoplifters informing them that if they enter our premises again, whether they are shoplifting or not they will be arrested under the criminal trespass statute. We photograph every shoplifter we apprehend, and we include that photograph in the bar notice and in a booklet carried by security people on the floor. Sometimes I think that retailers perpetuate the shoplifting cycle by apprehending and reapprehending the same individuals. The "bar notice" helps to reduce that.

We have an effective employee reward program focused on both shoplifting and employee theft. Seven hundred eighty-four people in the company, in 1986, received $114,125 in rewards for apprehensions or terminations related to shoplifting and employee dishonesty. I would say that more than half of our employee cases come from the reward program.

Marshall Field's has been a citywide leader in focusing public attention on shoplifting. Last year, an anti-shoplifting campaign received more than $2.5 million in public-service time on radio and television. The seed money for it was provided by local retailers.

You know, there are so many other things we do—uniformed guards, undercover agents, alarm systems, various kinds of audits and controls. But the gist of it all is: *four-wall responsibility*. In a nearly billion-dollar business, that keeps us working hard.

With Paul Cogswell, Director of Loss Prevention

Mr. Cogswell: The central idea in our asset-protection philosophy today is to apply effort where we can expect a maximum return. In the early stages of our program we were essentially reactive—by which I mean that we dealt with situations as they came up. But it gradually became clear to us that we couldn't achieve all that we hoped to achieve if we limited ourselves to reacting. The economics didn't work.

Arthur Young: How did you respond to that discovery?

Mr. Cogswell: We realized that we had to become much more *proactive*. We had to go out and find situations rather than let situations find us. We translated this insight fairly quickly into a strong emphasis on operational audits and on teaching a proactive stance to all of our people. In fact, the Arthur Young survey helped us focus on the training issue. The majority of retailers reported to you that better education was the primary road to better loss prevention. We decided to respond to that. We worked to create awareness of loss prevention throughout the stores and to provide technical assistance; we brought merchants and sales associates into the proactive loop, so that they don't wait for something to happen, they're actively engaged in loss prevention. Today, we are primarily proactive, although of course it will always be necessary to react to situations as they come up.

To implement a proactive program, we needed a new type of loss-prevention manager, someone who is a manager first and a security expert second. As always, managers need technical expertise, but today they also need a good business sense and broader management skills. They need to understand profit and loss, return on investment; they need the ability to interpret business and financial data. They need to understand conflict management and administrative techniques, be quick to take up new ideas and constantly challenge "the way things are." We have hired a new kind of person with this profile in mind, and we train that person differently. Our loss-prevention managers spend a good deal of their time as teachers and auditors, less time in a reactive mode responding to situations that crop up.

We have created divisions within our organization to take clear and distinct responsibility for various functions. Our manager of loss-prevention operations is a key player in making this approach work. Her job is to oversee regional loss-prevention management and to assure that the loss-prevention division is functioning at maximum capacity.

Arthur Young: Is she also responsible for investigations?

Mr. Cogswell: No, a separate office of central investigations, reporting to me, conducts investigations, coaches and supports store investigative efforts, and engages in what I call forensic auditing. Forensic auditing is regular, proactive investigation of certain company financial records to determine if defalcations have occurred. Its working basis is nothing short of the firm's general ledger and associated reports. The investigators look for trends that depart from the general norm. Their strategy and sampling methods are completely different from a standard auditor's. You know the old adage, "People do what you inspect, not what you expect." It could be their motto.

Our experience at Marshall Field's shows clearly the benefits of shifting from reactive loss prevention to a proactive management style. I think that the future success of loss prevention in any organization depends on making this shift. An important aspect of it is the inclusion of loss-prevention experts in the senior management teams that plan the future of a company. At Marshall Field's, thanks to our close relation with senior management, we are designing asset protection right into the fabric of the company's future operations.

With Mr. Burnett Donoho, President and Chief Operating Officer

Arthur Young: How high do you rate the importance of security and loss prevention at Marshall Field's?

Mr. Donoho: I rate it on a level with control of gross margin, expenses, and sales volume. Shortage control has a tremendous impact on gross margin. The sales-support side of any department-store organization obviously contributes to the bottom line, but you can't overestimate the impact on P&L of expense control and shortage control.

At Gimbels Midwest, earlier in my career, and here at Marshall Field's I have insisted that the person who runs the asset-protection area must report directly to me. It's not that I don't have confidence in a Chief Financial Officer or an Operations Vice President, but the person in that job needs and deserves whatever reinforcement he can get—and he gets more reinforcement if he reports directly to a principal.

Arthur Young: How do you personally participate in security and loss prevention?

Mr. Donoho: I'm involved in shortage steering-committee meetings—I make a point of always being there. I also go to as many individual store shortage-committee meetings as I can, whether it be at a branch in the Chicago suburbs or elsewhere in the country. Our Vice President for Loss Prevention knows, as do his operational Directors, that I want to be involved in literally everything that goes on in the area—within reason. I'm not going to get in there and do their job for them, but shortage control is, to a degree, a frame of mind, and the importance that a company attaches to shortage control directly influences its result. You have to *think* shortage, think inventory control and security.

My main role is support. I'm sure that a lot of people say that—but here we literally do what we say we do.

Arthur Young: Do you find that you can sometimes bring insight from your larger knowledge of the firm's operations to help the asset-protection people do their jobs better?

Mr. Donoho: Let's put it this way: I ask a lot of questions. I speak with our store people, our asset-protection people, everyone who's close to the issue. I'm interested in why we're doing *this*, and why we're not doing *that*.

Lew Shealy is a good communicator, and I don't think that I would want someone in his position who is not a good communicator. I *have to know* what's going on if I'm to support their efforts as adamantly as I do.

I don't give loss prevention lip-service. It's a major part of my job.

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